Q. **Reference: Reference: Schedule 1, 2027 Capital Budget Overview, pgs. 3, 37–38; Schedule 2, 5-Year Capital Plan including Major Projects 2027–2031**

Hydro is requesting approval of $156.4 million in the 2027 CBA. Hydro's total planned 2027 capital expenditure is $175.3 million excluding Major Projects and $545.6 million including Major Projects. Hydro states that its five-year capital plan is intended to reflect investments necessary to provide safe, reliable, least-cost service while balancing cost, reliability and environmental impacts.

a) Please explain how Hydro determined the appropriate overall level of capital investment for 2027, taking into account: i) the $156.4 million included in this Application; ii) other approved, proposed or anticipated supplemental capital expenditures; iii) Major Project expenditures; and iv) the cumulative revenue requirement and rate impacts arising from these expenditures.

b) Please identify any overall customer affordability, revenue requirement, rate impact or capital-spending constraint used in determining Hydro's 2027 capital program. If none, please explain why not.

c) Please confirm and explain whether Hydro assessed the affordability and prudence of the $156.4 million proposed in this Application in the context of the total $545.6 million of anticipated 2027 capital expenditures. If not, explain why not.

d) Please provide Hydro's forecast of total annual capital expenditures, including Major Projects, for 2027–2031 and the associated annual incremental revenue requirement arising from those capital investments.

e) Please provide the portion of the incremental revenue requirement in part d above expected ultimately to be borne by residential customers, before application of Government rate mitigation.

f) Please explain how Hydro assesses whether the cumulative pace of capital investment remains affordable for residential customers when individual capital projects may each be independently justified.

g) Please provide Hydro's forecast of total capital-related revenue requirement, including depreciation, return and other capital-related costs, for each year 2025–2031 and provide the approximate amount and percentage attributable to residential customers.

A. **a)** Newfoundland and Labrador Hydro ("Hydro") does not establish an overall capital expenditure target and then select projects to fit within that target. Rather, Hydro's annual capital budget is developed through a comprehensive capital planning process that identifies the investments required to maintain the safety, reliability, and long-term sustainability of its electrical system in accordance with good utility practice, in a least-cost, environmentally responsible manner. Hydro's capital planning process applies engineering assessments, asset condition information, risk evaluations, operational requirements, and system planning studies to determine the scope and timing of required investments. Hydro also considers project readiness, execution capacity, and the prioritization of investments across the portfolio. Hydro's objective is to provide safe, reliable, least-cost, environmentally responsible service while balancing customer cost impacts with the need to maintain and renew critical infrastructure.

Hydro recognizes that capital expenditures ultimately affect customer rates. Accordingly, rate impacts are an important consideration in capital planning and project prioritization. However, Hydro does not determine the level of required capital investment based on a predetermined revenue requirement or rate impact threshold. Prior to proposing capital programs and projects for inclusion in the Capital Budget Application ("CBA"), Hydro considers whether the investment can be deferred in light of the condition of the asset and its criticality to the system. Where deferral of a program or project is determined to be low risk, that option is selected in an effort to balance the cost impact to customers with the level of reliability required. In the interest of balancing cost, reliability, and environmental responsibility, Hydro has carefully considered its capital investment portfolio for 2027, and as a result, Hydro has deferred or cancelled 26 projects in preparing its 2027 CBA, which corresponds to an estimated $29.2 million[1] in capital investment in 2027.[2]

Hydro's capital planning approach therefore considers both system needs and customer impacts, while recognizing that the failure to undertake necessary investments can result in increased operational, reliability, and cost risks over the longer term.

[1] This number was derived from Class 5 estimates, and the true amount of deferred investment is likely higher. Note that this total does not include proposals which have been cancelled due to scopes being included under other capital projects.
[2] A list of the programs and projects which were deferred or cancelled for the 2027 CBA is provided in Section 5.1.1.

b) Refer to part a).

c) Refer to part a).

d) Hydro's forecast capital expenditures for the period 2027–2031 are provided in the Five-Year Capital Plan included with this Application. The Five-Year Capital Plan is intended to provide transparency regarding Hydro's anticipated capital investment requirements and the expected timing of capital expenditures. Within this Application, Hydro is seeking approval of the 2027 expenditures only and has not prepared annual forecasts of the incremental revenue requirement associated with the forecast capital expenditures contained in the Five-Year Capital Plan. Future revenue requirement impacts associated with capital expenditures will be addressed in the context of future Capital Budget Applications and General Rate Applications, as appropriate.

e) Refer to part d).

f) Refer to part a).